

04-261

USAID Grant No.278-005-00

AMENDMENT NO. 6

TO

GRANT AGREEMENT

BETWEEN

THE HASHEMITE KINGDOM OF JORDAN

AND

THE UNITED STATES OF AMERICA

FOR THE

INCREASED ECONOMIC OPPORTUNITIES FOR JORDANIANS

STRATEGIC OBJECTIVE

DATED: 30 JUN 1999

Certified Conformed copy of
Agreement signed on June 30, 1999

APPN:
BPC :
RCN :

FUNDS AVAILABLE FOR	
ADM. RES. <input type="checkbox"/>	OBLIGATION <input checked="" type="checkbox"/>
EN. RES./EN. <input type="checkbox"/>	COMM. RES/COMM. <input type="checkbox"/>
ACTION TAKEN BY <u>JSE</u> DATE <u>6/30/99</u>	
APPROPRIATION: <u>729/01017</u>	
BPC: <u>HES9-99-23278-K013</u>	
RCN/ECN: <u>A990101</u>	

Laurence Hardy
Laurence Hardy
Deputy Program Office Director

AMENDMENT NO. 6

TO

STRATEGIC OBJECTIVE GRANT AGREEMENT

BETWEEN The Hashemite Kingdom of Jordan, acting through the Ministry of Planning (Grantee), and the United States of America, acting through the United States Agency for International Development (USAID).

WHEREAS, on June 26, 1997, the Grantee and USAID (Parties) entered into a Grant Agreement for the Increased Economic Opportunities for Jordanians Strategic Objective (Agreement) whereby USAID granted to the Grantee Four Million Eight Hundred and Seventy-Three Thousand Eight Hundred and Eighty-Three United States (U.S.) Dollars (U.S. \$4,873,883) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, on August 26, 1997, the Parties amended the Agreement to, among other things, add an additional Intermediate Result within the Strategic Objective and provide additional USAID grant funding of Fifty Million U.S. Dollars (U.S.\$50,000,000) in the form of a cash transfer to help achieve the Strategic Objective; and

WHEREAS, on February 5, 1998, the Parties amended the Agreement to, among other things, provide additional USAID grant funding of Two Million U.S. Dollars (U.S.\$2,000,000) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, on June 9, 1998, the Parties amended the Agreement to, among other things, provide additional USAID grant funding of Thirteen Million Five Hundred and Eighty Nine Thousand Four

Hundred and Eleven U.S. Dollars (U.S.\$13,589,411) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, on August 10, 1998, the Parties amended the Agreement to, among other things, provide additional USAID grant funding of Four Million Three Hundred and Thirty Nine Thousand and Thirty Three U.S. Dollars (U.S. \$4,339,033) to finance foreign exchange and local currency costs of achieving the Strategic Objective; and

WHEREAS, on August 10, 1998, the Parties amended the Agreement to, among other things, provide additional USAID grant funding of Fifty Million U.S. Dollars (U.S. \$50,000,000) in the form of a cash transfer to help achieve the Strategic Objective;

WHEREAS, the parties now wish to further amend the Agreement to provide additional USAID grant funding of U.S. \$24,749,450 to further help achieve the strategic objective.

NOW THEREFORE, the Parties hereby agree to amend the Agreement as follows:

1. Article 3: Contributions of the Parties, Section 3.1. USAID Contribution, Subsection (a) The Grant, is amended by deleting the amount of "One Hundred and Twenty Four Million Eight Hundred and Two Thousand Three Hundred and Twenty Seven United States Dollars (U.S. \$124,802,327)" and replacing it with the sum "One Hundred and Forty Nine Million Five Hundred and Fifty One Thousand Seven Hundred and Seventy Seven United States Dollars (U.S. \$149,551,777)."

2. Article 4: Completion Date, Subsection (a) is amended so as to delete the date September 30, 2002 and replace it with the date December 31, 2004.

3. Annex 1, AMPLIFIED DESCRIPTION, and Annex 1, Attachment 1 ILLUSTRATIVE STRATEGIC OBJECTIVE BUDGET are hereby amended to read in the form attached as Annex 1, and Annex 1, Attachment 1 hereto.

4. Except as amended herein, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the Parties, each acting through their duly authorized representative, have caused this Amendment to be signed in their names and delivered as of the day and year first above written.

THE HASHEMITE KINGDOM OF JORDAN

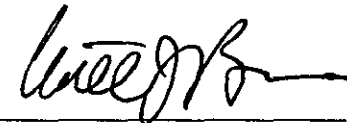
THE UNITED STATES OF AMERICA

BY:


Dr. Rima Khalaf Hunaidi

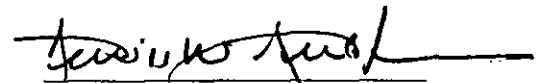
TITLE: Deputy Prime Minister &
Minister of Planning

BY:


William J. Burns

TITLE: U.S. Ambassador

BY:


Lewis W. Lucke

TITLE: Mission Director
USAID/Jordan

INCREASED ECONOMIC OPPORTUNITIES FOR JORDANIANS
STRATEGIC OBJECTIVE

AMPLIFIED DESCRIPTION

1. INTRODUCTION

This Annex describes the activities to be undertaken and the results to be achieved with the funds obligated under this Agreement. Nothing in this Annex 1 shall be construed as amending any of the definitions or terms of the Agreement.

II. BACKGROUND

Deteriorating growth rates pose a new challenge to Jordan's attempts to provide adequate economic opportunities for the majority of its citizens. At least 42,000 new jobs need to be created each year to absorb new workers entering the labor market--and another 8,000 more jobs to begin to reduce the country's unacceptably high unemployment rate, optimistically estimated at 15 percent. The World Bank estimates that in 1995 GNP per capita for Jordan's 4.2 million citizens was on the order of \$1,500, placing Jordan in its lower-middle income country group. With the natural population growth rate now estimated at 2.6 percent per year, significant economic growth must occur in Jordan for per capita income to increase, or even to remain steady.

Jordan is poor in natural resources. Only 8 percent of its land is arable, much of it concentrated in the Jordan Valley, which cannot hope to provide a basis for broad-based economic growth for the entire country. Remittances from overseas workers and tourism remain the major two sources of foreign exchange. While phosphate and potash mined from the Dead Sea are important exports earning valuable foreign exchange, they too offer limited growth potential. Given these constraints, economic growth, particularly from exports, must come from a diversification of Jordan's economy and increased utilization of its educated and well trained work force.

To that end, the Government of Jordan (GOJ) initiated a series of IMF and World Bank-supported economic reforms to liberalize trade and investment policies. Recent economic developments have been discouraging, with economic growth estimated at only 1.3 percent in 1997 and 2.2 percent in 1998. Nonetheless, the GOJ is continuing to pursue policies and programs designed to liberalize its economy in order to promote economic growth through increased savings and greater investment. The GOJ hopes that these actions will contribute to a lowered unemployment rate and increased per capita incomes.

III. STRATEGIC OBJECTIVE AND INTERMEDIATE RESULTS TO ACHIEVE THE STRATEGIC OBJECTIVE

A. The Strategic Objective: The Strategic Objective is to increase economic opportunities for Jordanians.

The Strategic Objective aims at promoting market-based economic growth and restructuring in Jordan. It also represents a direct response to concerns that the benefits of economic restructuring are spread unevenly and fail to benefit poorer segments of the population. Only by reaching-out to groups that by and large have not yet benefited from the reform process—for example, micro- and small business people, the poor, women, youth, and residents of more isolated areas of the country—will Jordan be able to maintain the momentum of its reform efforts, sustain its economic restructuring program and insure that the benefits of economic growth are widely shared.

This formulation underscores the fact that individual Jordanians are to be the main beneficiaries, especially those who heretofore have failed to benefit from the economic restructuring process. USAID activities under this Strategic Objective support the goal of encouraging "broad-based economic growth" by expanding access and opportunities through financial services and by encouraging more effective implementation of policy reforms that benefit entrepreneurs, including women and youth, as well as facilitating the creation of an improved environment which will allow for sustainable policy reforms.

Other development partners are addressing a range of constraints to increasing economic opportunities. The lead partner is the World Bank with its proposed Economic Reform and Development Loan III (ERDL III) and its support, along with other donors, for Jordan's Social Productivity Program (SPP). This Strategic Objective targets activities which ultimately increase the number of private companies registered, promote greater access to credit on the part of micro entrepreneurs, expand the number of micro- and small entrepreneurs utilizing the commercial banking system, and increase the number of jobs and the amount of investments facilitated through the Investment Promotion Corporation (IPC). The Strategic Objective will be achieved by improving access to business and financial services and by more effective policy reform and implementation, including in those areas that potentially benefit micro- and small-enterprises. Its achievement will also be predicated on an improved policy environment which actually encourages economic development.

The Strategic Objective is the overall or ultimate result that USAID and the GOJ intend to achieve in this Agreement. Key indicators for measuring attainment of the Strategic Objective are as follows or as further agreed upon in writing by the parties:

- 5.1 Percentage increase in number of companies registered.
- 5.2 Number of micro- and small-entrepreneurs utilizing the commercial banking system.
- 5.3 Number of jobs created by companies benefiting from Investment Promotion

Corporation incentives.

The Intermediate Results (described below) are the key results which must occur in order to achieve the Strategic Objective.

B. Intermediate Results (IRs) : The Strategic Objective for this Agreement will be accomplished through the achievement of three Intermediate Results, as follows:

5.1 Increased Access to Business and Services

The indicators in determining progress toward achieving IR 5.1 include:

- 5.1.1 Increased number of borrowers obtaining micro and small-enterprise credit;
- 5.1.2 Percentage of repeat borrowers for USAID-supported microenterprise finance;
- 5.1.3 Number of jobs saved and/or generated by USAID-supported Business Service Center Clients (BSCs);
- 5.1.4 Client ratings of business and consulting services in USAID-supported BSCs.

5.2 More Effective Identification and Implementation of Policy Reform

The indicators in determining progress toward achieving IR 5.2 include:

- 5.2.1 Level of entrepreneurs awareness of key economic policy reforms;
- 5.2.2 Level of foreign direct and domestic investments facilitated to the Investment Promotion Corporation (IPC);
- 5.2.3 Customs clearance times for imports.

5.3 Improved Environment for Sustained Policy Reform

The indicators in determining progress toward achieving IR 5.3 include:

- 5.3.1 Index of Economic Freedom (IEF) Composite Score;
- 5.3.2 "Oracle" expert assessment of progress in economic reform;
- 5.3.3 Progress toward accession to the World Trade Organization;
- 5.3.4 Progress toward further refinalization of the tariff structure;

5.3.5 Progress toward efficient and well-regulated capital markets.

5.3.6 Progress toward privatization of state-owned enterprises (SOEs)

C. Details on Indicators: Details on the indicators set forth above may be further agreed upon or revised in accordance with Article 2 and Section 7.2 of the Grant Agreement for the Strategic Objective ("SOAG") of which this Annex 1 is an integral part. For all purposes of the SOAG, including Article 2 and Section 7.2, indicators may include baselines and targets for measuring or achieving performance.

IV. ILLUSTRATIVE USAID-FUNDED ACTIVITIES

The Parties agree to finance activities covering three Intermediate Results needed to achieve the Mission's broader Strategic Objective. The proposed activities will be selected from among those described below, or others agreed upon by the parties:

A. Increased Access to Business Services (IR 5.1):

The central theme of this IR is to increase the productivity and competitiveness of Jordan's small, medium, and micro enterprises by promoting entrepreneurship and improving access to finance, technology, markets, and modern management techniques.

1. *Sharing Microfinance Best Practices:* The goal will be to develop and strengthen the working knowledge of Jordanian NGOs (including, for all purposes of this Agreement, PVOs) about microfinance best practice. This activity will actively pursue and support local institutions to effectively apply and benefit from using best practice in a Jordanian context. These "best practices" will be introduced to a range of NGOs active in Jordan, and will serve to improve existing or new techniques as well as to identify potential candidates for more intensive technical assistance in a later phase. Both technical assistance and training is envisaged as part of this effort. The ultimate aim is to develop and expand microenterprise skills and capabilities among individuals and institutions in Jordan.

2. *Institutional Microfinance Incentive Grants:* For sustainable microfinance institutions, USAID and MOP will jointly identify through a competitive procurement process, an institutional contractor to provide technical support to establish and manage an incentive grant program targeted at improving the ability of existing microenterprise institutions to reach financial sustainability by year five of their program-funded activity. The incentive grants program will support the improvement and implementation of microenterprise best practice methodologies and the adaptation of new global trends within the Jordanian context. The incentive grants program will assist NGOs to provide improved financial services to large numbers of people in need of better access to financial services. The institutional contractor will establish, in coordination with USAID and the Ministry of Planning, selection criteria for solicitation of proposals from local and international NGOs that are committed to provide financial services to microenterprise on a sustainable basis. USAID anticipates providing at least \$5 million for competitive grants during the life of this

SOAG. The individual grants will typically exceed \$500,000 and are expected to support operating expenses for program expansion, capitalized loan funds, specialized technical assistance, training, and commodity procurement.

3. *Microfinance Information Systems:* Most microfinance institutions do not have information systems that can rapidly indicate the status of portfolio performance. Short-term loans with multiple repayments are generally shown to be the most effective for microenterprises. Also, deposit services are needed to streamline transactions, thereby making the deposit funds immediately accessible. If the information systems within the organization do not reflect the immediate situation with any given loan, the loan can become problematic for the lender. USAID and the Ministry of Planning will work together with the designated contractor to design an intervention designed to help microenterprise organizations understand the value of an adequate information system and then assist in designing, developing, installing and managing such systems.

4. *Microfinance Assistance to Commercial Banks:* USAID believes that the most sustainable way to address many constraints in the development of micro- and small business finance is to fully engage formal financial institutions such as commercial banks. In particular, USAID will seek to increase the number of micro- and small-entrepreneurs utilizing the commercial banking system. Beyond identifying and placing "graduate" repeat borrowers from existing or planned microenterprise initiatives, a number of additional activities are either anticipated or currently under discussion. One approach is to engage top local bank management in order to secure a commitment to micro and small-entrepreneurs. A second is to use existing mechanisms to facilitate movement of high performing entrepreneurs into the formal finance sector. A third approach involves assisting banks directly in developing loan packages, credit cards, and savings instruments that make expanded commercial bank outreach to micro- and small entrepreneurs less costly and more profitable.

5. *Microfinance Donor Coordination:* A range of NGOs provide microenterprise credit services in Jordan. There is, however, only an informal exchange of experience among the NGOs themselves as well as among foreign and domestic experts. While the World Bank is providing the bulk of the money in this area, USAID, the lead donor in terms of its technical approach, will help coordinate at a technical level so that the "best practices" contributed by USAID can be adapted and applied by other donors and implementing organizations. Direct or indirect support for initiatives undertaken by other donors in support of this Strategic Objective such as the World Bank, UNDP, Peace Corps and others may also be appropriate. If USAID, working with the microenterprise coordinating unit described below, can make overall micro finance activities in Jordan more effective in terms of outreach and sustainability, access to financial services should also increase. This in turn should expand economic opportunities for Jordanians throughout the country.

6. *Microenterprise Coordination Unit:* USAID will coordinate USAID-funded microenterprise activities under this Intermediate Result with the newly created microenterprise coordination unit established by the GOJ. To encourage better coordination and cooperation among the microenterprise community in Jordan, a quarterly meeting chaired by the Minister of Planning or his/her designee will be held to monitor progress and provide direction on further

developments in the sector.

7. *Business Services Activities*: USAID and the GOJ will jointly identify a US based institutional contractor and/or private voluntary organization to provide expertise to private small and medium enterprises in Jordan in the areas of Technology Transfer, Marketing, Quality Control, ISO Certification, and Management relevant to business development. Program design and development will be a joint effort between the Ministry of Industry and Trade and USAID. Activities will include technical assistance, training, and a small grants program aimed at making Jordanian small and medium enterprises more effective and competitive in the context of a global economy.

8. *Free Trade Zone (FTZ) and Qualified Industrial Zone (QIZ)*: USAID and the GOJ will jointly identify a US based contractor to carry out feasibility assessments for FTZ's and/or QIZ's and develop the physical infrastructure for such zones. The initial focus will be on the proposed Aqaba Free Port Special Economic Zone. USAID will also provide firm level assistance through the business services activity mentioned in item 7 above to enterprises in the FTZ's as well as the (QIZ's) in Jordan.

9. *Other Related Activities*: From time to time, other related activities aimed at further promoting and strengthening this Intermediate Result will be supported. Specific examples that fall within this category include the ongoing Peace Corps Special Project Assistance (SPA) program and a new youth entrepreneurship initiative patterned after the "Junior Achievement" model in the United States. Additional activities that strengthen business services and promote economic opportunities for poorer or underrepresented segments of Jordan's population will also be considered as appropriate.

10. *Program Development and Management Support*: This will include the provision of limited technical assistance (TA) related to the development and management of the business and financial services IR. This will entail the provision of expert advice and assistance on strategic planning, monitoring and evaluation under this IR, such as problem identification; data collection and analysis; and project/activity management. At a minimum, specific TA will include one U.S. Personal Services Contractor working in the USAID/Jordan Office of Economic Opportunities and Free Market Development Program Advisors working with public sector, private sector or non-government organizations.

B. More Effective Implementation of Policy Reforms (IR 5.2)

1. *Assistance to the Investment Promotion Corporation (IPC)*: Technical assistance to the IPC will support USAID and the government's efforts to eliminate bottlenecks that affect investment. The IPC is starting to make progress in this area, although additional support is still needed. Supporting IPC offers several advantages: it has proven to be an effective agency in bringing about improvements in the policy environment; it is legally empowered to work towards the streamlining of government procedures that affect investment; and its mandate and existing efforts are concentrated in areas which coincide with, and directly support USAID's Economic Growth Strategic Objective. USAID in coordination with the Ministry of Planning may also assist

the IPC in developing, consistent with USAID policy and laws prohibiting support for activities that would result in the loss of U.S. jobs, an investment promotion campaign aimed at attracting increased foreign investment in Jordan, including promotion of FTZ's and QIZ's.

2. *Other Technical Assistance:* USAID will make use of technical assistance and related training where it is requested by Jordanian partners and beneficiaries through the Ministry of Planning, and where it contributes to achievement of the Strategic Objective. This technical assistance may be both long and short term in nature, will be competitively procured and will rely on both Jordanian and U.S. sources of expertise. At a minimum, technical assistance beyond that associated with the IPC (discussed above) will consist of survey work to show progress towards achievement of IR 5.2 and support to the Department of Customs in its implementation of policy reforms. Technical assistance and related training may be provided in a range of policy reform areas such as economic restructuring, privatization, competitiveness, tax reform, financial sector reform, World Trade Organization (WTO) accession and Intellectual Property Rights enforcement and trade and investment reforms, and FTZ/QIZ reforms among others. If necessary, policy work related to identifying and removing barriers to effective management of sustainable microenterprise and small business lenders will also be supported.

3. *Non-Governmental Organizations (NGOs):* USAID, upon the request of the Ministry of Planning and other partners will support additional technical assistance in the areas of policy "supply" (e.g. transmission of ideas), and policy "demand" (e.g. collection and assessment of issues and ideas from a variety of business associations, trade associations, civic groups and other advocacy groups that have a special interest in achievement of the results in IR 5.2). USAID will also help these groups define the audience for a specific policy message, with a view toward engaging with that audience to further strengthen the constituency for policy reform. The audience for this USAID-funded support may be the GOJ, commercial banks or other private entities. The manner in which the NGO's engage their audience with USAID funding will consist of a variety of mechanisms, including informal or formal meetings, seminars, pamphlets, media messages and other initiatives.

4. *World Bank Technical Assistance Fund:* A trade reform, financial sector and legal reform, and privatization technical assistance package will be developed and implemented in cooperation with the Ministry of Planning (MOP) and the World Bank that would at a minimum provide continued support for the economic reform program which aims to integrate Jordan with the global markets and promote investment and growth and a level of foreign exchange reserves that is sufficient to withstand major external shocks. This technical assistance package will result in promoting and sustaining a high level of exports of goods and services, attracting an adequate level of direct foreign investment, and attracting strategic foreign investors to some of the enterprises being privatized to enhance efficiency and competitiveness.

C. Improved Environment for Sustained Policy Reform (IR 5.3)

This Intermediate Result incorporates balance of payments and debt repayment support in the form of a cash transfer. It also includes a series of conditions precedent and covenants regarding actions which improve the business and commercial environment in Jordan, expand opportunities

for private sector participation, promote policy reform, and advance Jordan's economic restructuring concerns. Future cash transfers are contingent on the availability of funds. Such transfers will continue to be policy-based and will continue to include relevant conditions precedent and covenants aimed at supporting Jordan's economic reform efforts.

V. PROGRAM APPROACH

This program has been designed to allow flexible selection and modification of activities over time in order to best achieve the strategic objective and intermediate results identified above. The emphasis under this program is on achievement of agreed upon results, not simply completion of specific activities. Consequently, activities to be financed under this Agreement, such as institutional incentive grants, technical assistance, training, and research, have not been specified in detail in this Amplified Description.

Although the program offers significant flexibility in selecting suitable activities to be financed under this Agreement, to be eligible for financing hereunder any grant, technical assistance, training, research or other activities must (1) contribute to the strategic objective and intermediate results described above, (2) be supported by cost estimates that are reasonable and reasonably firm, and appropriate analysis and planning, including feasibility analyses, where appropriate, with regard to institutional, technical, financial, social soundness, or other measures of feasibility, and (3) be likely to be completed within the timeframe and budget specified in the proposal.

Additional criteria for selection of activities will include customer demand, USAID comparative advantage, previous experience/ "lessons learned", sustainability, and cost sharing.

USAID will coordinate with the GOJ and other relevant parties prior to selection of activities for funding, as discussed above and using means appropriate under the circumstances, which may include consultation with the GOJ on the substance of proposed activities, approval of requests for proposals, review of solicited and/or unsolicited contract/grant proposals, selection of contractors/grantees, or other appropriate mechanisms

USAID will enter into direct contracts and grants, as well as host-country contracting in limited circumstances, to support activities in support of the program. Such agreements will be in accordance with USAID acquisition regulations, USAID Directives/Handbook, and other applicable laws, regulations and policy.

VI. MONITORING AND EVALUATION

USAID and the GOJ jointly agree to provide resources and information to insure an adequate level of monitoring and evaluating needed to assess progress towards achievement of the Strategic Objective and Intermediate Results.

"Performance audits" will be conducted at least annually, based on a range of indicators used to measure progress in achieving Intermediate Results. The annual USAID-generated "Results Review and Resource Request" (R4) represents a particularly useful mechanism for reviewing

progress and ensuring that activities are on track.

A performance monitoring plan and related performance data may be developed and agreed upon further in accordance with Article 2 and Section 7.2 of the Grant Agreement for the Strategic Objective ("SOAG") of which this Annex 1 is an integral part.

Financial audits of various activities and assistance instruments will be conducted in accordance with relevant standard provisions contained in Annex 2 of this agreement.

As determined during the course of implementation of this Agreement, USAID and the GOJ may from time to time jointly authorize an external evaluation of the progress and impact of the activities towards accomplishing the Strategic Objective and the Intermediate Results.

Each contracting/assistance instrument will include a performance-monitoring tool to permit USAID and the GOJ to evaluate progress towards the goals and objectives of the respective contract instrument.

VII. FINANCIAL PLAN

The Financial Plan, set forth on Attachment 1 to this Annex 1, entitled "Illustrative Strategic Objective Budget", may be revised in accordance with Sections 3.1(c)(1) and 7.2 of the Agreement without formal amendment to this Agreement.

ANNEX 1, ATTACHMENT 1

ILLUSTRATIVE STRATEGIC OBJECTIVE BUDGET

SO: Increased Economic Opportunities for Jordanians

INTERMEDIATE RESULT	USAID FUNDING			LIFE OF SO
	PREVIOUS OBLIGATIONS	THIS AMENDMENT	TOTAL	
1. Increased Access to business services	14,158,883	12,000,000	26,158,883	30,000,000
2. More Effective Identification and Implementation of Policy Reforms	10,643,444	12,749,450	23,392,894	45,000,000
3. Improved Environment for Sustained Policy Reform	100,000,000	0	100,000,000	250,000,000
TOTAL	124,802,327	24,749,450	149,551,777	325,000,000